

Message Text

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ACTION EB-03

INFO OCT-01 SS-14 ISO-00 EUR-08 TRSE-00 NEA-07 NSC-05
NSCE-00 INR-05 CIAE-00 PM-03 DODE-00 SP-02 OMB-01 L-01
PRS-01 EA-06 IO-06 AF-04 /067 W
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P R 301819Z DEC 76
FM AMEMBASSY LONDON
TO SECSTATE WASHDC PRIORITY 9119
INFO AMEMBASSY JIDDA
AMEMBASSY DOHA
AMEMBASSY TEHRAN
AMEMBASSY ABU DHABI
AMEMBASSY JAKARTA
AMEMBASSY PARIS
AMEMBASSY ALGIERS
AMEMBASSY BONN
AMEMBASSY TRIPOLI
AMEMBASSY ROME
AMEMBASSY LAGOS
AMEMBASSY VIENNA
USINT BAGHDAD
USMISSION EC BRUSSELS
USMISSION OECD PARIS
AMCONSUL DHAHRAN

C O N F I D E N T I A L SECTION 01 OF 03 LONDON 20869

LIMDIS

E.O. 11652: GDS
TAGS: ENRG, OPEC, UK
SUBJECT: BRITISH REACTION TO OPEC'S SPLIT DECISION

REF: (A) DHAHRAN 1599; (B) TEHRAN 12857; (C) PARIS
37946

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1. SUMMARY: THE BRITISH GOVERNMENT HAS BEEN SILENT
REGARDING THE OUTCOME OF THE DOHA MEETING, BUT PRESS
REACTION, PROBABLY PARTLY BASED ON GOVERNMENT SOURCES,
REFLECTS RELIEF THAT DECISION WASN'T WORSE, AS WELL AS
UNCERTAINTY AS TO HOW THE TWO TIER SYSTEM WILL WORK IT-
SELF OUT. GOVERNMENT AND PUBLIC REACTION HAS BEEN

AFFECTED BY FACT THAT NORTH SEA OIL WILL SUPPLY A GROWING SHARE OF BRITAIN'S NEEDS DURING 1977. INDUSTRY HAS HAD A MORE MIXED REACTION, WITH BP IN PARTICULAR FEELING IT'S CAUGHT VERY UNCOMFORTABLY IN THE MIDDLE. END SUMMARY.

2. SO FAR AS WE CAN DETERMINE, THERE HAS BEEN NO OPEN BRITISH GOVERNMENT REACTION TO THE DOHA OPEC MEETING. INDEED, THE BRITISH GOVERNMENT HAS BEEN SILENT EVEN ON THE QUESTION OF THE IMPLICATIONS OF THE DOHA RESULTS FOR THE PRICING OF NORTH SEA OIL. (NORTH SEA CRUDE PRICES HAVE BEEN ALIGNED ON OPEC PRICES. ONE INDUSTRY SOURCE FEELS THE GOVERNMENT WILL WAIT UNTIL THE END OF JANUARY TO SEE HOW THE MARKET RESPONDS TO THE DOHA TWO-TIER DECISION BEFORE REACTING.)

3. EXTENSIVE PRESS COVERAGE HAS STRESSED THAT THE RESULTS WERE NOT AS BAD AS THEY MIGHT HAVE BEEN. THE EFFECT OF ANY PRICE INCREASE WILL OF COURSE BE MITIGATED BY GROWING NORTH SEA PRODUCTION, PRESS ESTIMATES (APPARENTLY DERIVING FROM UK GOVERNMENT SOURCES) ARE THAT THE IMPORT BILL WILL RISE BY \$400-500 MILLION, AND THAT THIS MEANS A 0.5 PERCENT INCREASE IN THE RETAIL PRICE INDEX. THERE IS SOME HOPE THAT THE DECLINE IN IMPORT DEMAND WILL BE ACCOMPLISHED BY REDUCING IMPORTS OF HIGHER PRICED OIL, WITH THE SAUDI-UAE SHARE IN BRITAIN'S OIL IMPORTS THEREFORE INCREASING.

4. THE ONLY FOR-ATTRIBUTION STATEMENT BY A BRITISH OIL COMPANY EXECUTIVE WAS BY C.C. POCOCK OF SHELL TRANSPORT CONFIDENTIAL

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AND TRADING, WHO SAID HE DID NOT FEEL A TWO-TIER PRICE STRUCTURE IS FEASIBLE. HE ALSO CALLED BY A LONG-TERM (10 YEAR) PRICE AGREEMENT.

5. DISCUSSIONS WITH OFFICIALS OF BHA(JOHN SUTCLIFFE, MANAGING DIRECTOR, MIDDLE EAST OPERATIONS) AND SHELL (IAN SKEET, OF THEIR GOVERNMENT RELATIONS DEPT), SUGGEST THAT THESE COMPANIES, AND PARTICULARLY BP, FEEL IN AN ACUTELY UNCOMFORTABLE POSITION. INITIALLY, THEY DID NOT THINK THAT SAUDI ARABIA "REALLY MEANT" ITS 5 PERCENT POSITION. NOW, HOWEVER, THEY FEEL THAT IT DOES: SAUDI ARABIA IS NOT ONLY MAKING CONFIRMING SOUNDS, BUT INCREASING PRODUCTION. THEY AGREE THAT SAUDI ARABIA CAN QUICKLY INCREASE ITS PRODUCTION TO THE 10 MILLION B/D LEVEL; SUTCLIFFE THINKS THE 11.8 MILLION B/D LEVEL IS POSSIBLE BY END-1977; SKEET FEELS THE ARAMCO COMPANIES CAN BEST JUDGE THIS POINT.

6. BOTH COMPANIES WOULD LIKE TO GET MORE SAUDI CRUDE. HOWEVER, WHEN YAMANI WAS IN LONDON A WEEK AGO, HE REFUSED TO MEET WITH SHELL AND BP, AND TALKED ONLY IN GENERALITIES TO THE BRITISH GOVERNMENT; HIS MAIN CONVERSATIONS WERE WITH THE ARAMCO COMPANIES. THE QUESTION FOR BP AND SHELL NOW IS NOT WHETHER MORE SAUDI CRUDE WILL BE PRODUCED; IT IS WHO WILL SELL IT. BP'S UNDERSTANDING IS THAT ARAMCO HAS EXISTING ARRANGEMENTS TO

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TAKE ABOUT 7 MILLION B/D, AND THAT THE ARAMCO COMPANIES MAY HAVE FURTHER DEALS TOTALLING ABOUT 1 MILLION B/D.

WHO GETS THE 2 MILLION B/D REMAINEUR--THE ARAMCO COMPANIES, OR WILL PETROMIN SELL TO OTHER BUYERS? BP HAS HAD ONLY TWO MINOR CONTRACTS TO GET SAUDI CRUDE: AN EXCHANGE DEAL WITH EXXON FOR IRANIAN CRUDE (WHICH IT UNDERSTANDS WILL NOT BE OPERATIVE AT LEAST FOR THE CONFIDENTIAL

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FIRST TWO WEEKS OF 1977); AND ONE WITH CHEVRON, WHICH NOW SAYS IT HAS NO CRUDE TO SELL. BP HAS A MEETING ON ANOTHER SUBJECT WITH PETROMIN NEXT WEEK, AND INTENDS TO TRY TO RAISE THE QUESTION OF CRUDE ACCESS.

7. SKEET OF SHELL TENDS TO THINK THAT A 2 MILLION B/D INCREASE IN SAUDI PRODUCTION WILL BE ACCOMPANIED BY A 2.5 MILLION B/D REDUCTION IN PRODUCTION ELSEWHERE--AND, GIVEN DIFFERENCES IN QUALITY AND OTHER FACTORS, THE REDUCTION WILL HAVE TO COME OUT OF OTHER PERSIAN GULF PRODUCTION. BOTH HE AND SUTCLIFFE AGREED THAT THE IRAQIS WILL CHISEL ON PRICE TO MAINTAIN PRODUCTION, AND THAT THE AMOUNT BY WHICH KUWAIT PRODUCTION CAN BE REDUCED IS LIMITED (THEY THOUGHT IN TERMS OF REDUCING PRODUCTION TO 1.7 MILLION B/D, OR 1.5 MILLION B/D AT A MINIMUM.). THE MAIN IMPACT THEREFORE IS ON IRAN. WHILE SUTCLIFFE IS LESS INCLINED TO PLAY A NUMBERS GAME, AND IS MORE OPTIMISTIC ABOUT WORLD DEMAND THAN SKEET, HE'S THINKING IN SIMILAR TERMS.

8. SKEET NOTED THAT SHELL'S SHARE IN THE IRANIAN CONSORTIUM IS ONLY 14 PERCENT, AND THAT SHELL IS CRUDE HUNGRY; HE TENDED TO MINIMIZE SHELL'S COMMERCIAL EXPOSURE. SUTCLIFFE, ON THE OTHER HAND, WENT ON AT GREAT LENGTH ABOUT BP'S PARTICULARLY ACUTE PROBLEM, WITH ITS 40 PERCENT PARTICIPATION IN THE CONSORTIUM, AND ITS DEPENDENCE ON IRANIAN OIL. HE CLAIMED WITH SOME BITTERNESS THAT AMERICAN PARTICIPANTS IN THE CONSORTIUM HAD FORCED STATEMENT OF A HIGH LEVEL OF INTENDED TAKINGS OF IRANIAN CRUDE IN 1977; HE (AND SKEET) ASSUMED THAT THE AMERICAN FIRMS WOULD NOT WANT TO CUT BACK OR OUT, AND HE FELT BP WAS BEING LEFT TO HOLD THE BAG. BP WOULD NOT EVEN WANT TO TAKE ITS OLD SHARE OF PREVIOUSLY PROJECTED 1977 OFFTAKE. DURING JANUARY OFFTAKE AT IRANIAN PORTS WOULD BE FALLING PRECIPITATELY. HE FELT THAT BEFORE THIS HAPPENED, WITH PREDICTABLE CONFIDENTIAL

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EFFECTS ON THE SHAH'S TEMPER, HE SHOULD--PERHAPS NEXT

WEEK--FLY OUT TO TEHRAN TO EXPLAIN WHAT WAS GOING TO
HAPPEN.

9. SUTCLIFFE, DOING SOME WISHFUL THINKING, WONDERED
WHETHER CONSUMER NATIONS COULDN'T SOLVE THE PROBLEM OF
THE TWO-TIER SYSTEM BY DICTATING A MIX OF HIGH AND LOW
PRICED IMPORTS, AND THEN ASSIGNING AN AVERAGE PRICE TO
BE CHARGED INTERNALLY. HE ALSO ASKED WHAT THE VIEWS OF
THE ATTORNEY GENERAL-DESIGNATE WERE LIKELY TO BE ABOUT
AN OIL COMPANY CONFERENCE. FINALLY, HE CAME DOWN TO AN
EXPECTATION THAT THE COMPANIES WOULD BE LEFT TO ORGAN-
IZE THE MARKET MORE OR LESS AS THEY HAD DONE AFTER THE
1973 OIL CRISIS.

10. SUTCLIFFE'S HOPE--IF NOT HIS BELIEF--IS THAT
EVENTUALLY A FACE-SAVING COMPROMISE WILL BE REACHED,
WITH SAUDI ARABIA ABANDONING ITS 5 PERCENT POLICY TO
ALIGN ON THE 10 PERCENT INCREASE, BUT WITH IRAN AND ITS
ALLIES ABANDONING THE ADDITIONAL 5 PERCENT INCREASE.

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HE FELT THAT SUCH A COMPROMISE WOULD BE MORE POSSIBLE IF YAMANI HIMSELF WERE CONTROLLING SAUDI OIL POLICY, BUT HE DETECTED OTHER STRONGER FORCES, SUCH AS PRINCE FAHD, IN CHARGE. SUTCLIFFE ADMITTED THAT IN HOPING THIS WOULD HAPPEN, HE WAS SPEAKING NOT AS A CITIZEN OF A CONSUMER NATION, BUT AS AN OFFICIAL OF BP. HE ALSO FELT THAT STORMY NEGOTIATIONS WITH THE SHAH OVER THE CONFIDENTIAL

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COMING WEEKS WERE INEVITABLE.

11. SKEET OF SHELL EXPRESSED LESS BY WAY OF COMPANY INTEREST IN THE MATTER, AND VIEWED SUCCESS OF THE SAUDI LINE AS BOTH MORE LIKELY AND MORE ACCEPTABLE THAN DID SUTCLIFFE. HOWEVER, HE LIKE SUTCLIFFE WARNED ABOUT THE DANGERS OF PUSHING THE SHAH TOO HARD. HE IS, AFTER ALL, IN CONTROL OF OIL THE WEST NEEDS. DESIRE FOR A LOWER PRICE SHOULD NOT BE ALLOWED TO OBSCURE THE IMPORTANCE OF MAINTAINING DECENT POLITICAL AND ECONOMIC RELATIONS WITH HIM.

12. INCIDENTALLY, BOTH SKEET AND SUTCLIFFE HAD RECEIVED A MESSAGE FROM TEHRAN ON DECEMBER 29 INDICATING THAT A LETTER FROM NIOC INCREASING THE PRICE OF LIGHT IRANIAN CRUDE BY \$1.19 AND OF HEAVY BY \$1.16 WAS EXPECTED MOMENTARILY (SEE REF B).

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